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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*Jordan: A Budget Review*

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
September 1972

INTELLIGENCE MEMORANDUM

JORDAN: A BUDGET REVIEW

Introduction

1. Recently released budget figures for the first half of 1972 indicate that Jordan's financial position has not changed markedly since the United States announced in March that Jordan would receive US \$50 million in US budget support for the 1972 budget. Jordan, with some difficulty, should be able to meet most of its budget requirements this year according to present projections of expenditures and revenues. If aid is not received from Persian Gulf countries later this year, however, Jordan's already tight financial position will worsen and Amman will be forced to make some hard financial decisions at the beginning of 1973. Amman is hesitant, however, to make any decisions that will harm the recently begun resurgence in economic activity and the new three-year development program the government is instituting. It is Jordan's first truly integrated economic development program and is given a high priority by Jordan's leaders. This memorandum discusses the 1972 budget -- revenues, expenditures, and deficit -- and also the outlook for 1973.

Discussion

Background

2. Jordan<sup>(1)</sup> presently is far from being economically self-sufficient. It has few natural resources and little industry, and roughly one-third of its population is composed of refugees. The government is the major employer and clearly the determining force in the economy. Government

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1. Unless otherwise specified, the term **Jordan** refers to the territory under the **de facto** control of the government of Jordan. Since the June 1967 war with Israel, such control covers only territory east of the Jordan River.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

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outlays generally equal about three-fourths of gross national product (GNP). With expenditures so high relative to output, Amman is in no position to raise enough tax revenue to meet its annual needs. Thus Jordan depends on foreign aid to finance a major portion of its spending.

Recent Budget Experience

3. Immediately prior to the 1967 war, Jordan was spending roughly \$50 million more than it collected in domestic revenues. The deficit was made up by budget support grants, mostly from the United States and the United Kingdom. The deficit nearly tripled in 1968, the first full year after the war, and had increased to \$162 million -- including unpaid obligations -- by 1971. From 1968 through 1970, foreign grants covered roughly two-thirds of the deficit and domestic borrowing the remainder. Almost all budget aid in these years came from Kuwait, Libya, and Saudi Arabia under the terms of the September 1967 Khartoum Agreement. From September 1967 until September 1970, when heavy fighting developed between the Jordan army and the fedayeen, Arab aid averaged about \$105 million annually.

4. After the September 1970 flareup, Kuwait and Libya suspended payments on their annual pledges of \$39 million and \$25 million, respectively. Kuwait resumed payments in December 1970 only to suspend them again the following month. Jordan's Khartoum aid came to about \$93 million in 1970. In 1971 the United States again became the major supplier of budget aid, providing about \$48 million -- including \$15 million that was spent in 1971 but not officially transferred until February 1972; Khartoum aid amounted to only \$42 million; and another \$13 million came from the other sources (see Table 1). Even though the decline in Khartoum aid was offset by new aid, especially from the United States, the budget deficit rose, requiring increased domestic borrowing, which jumped from \$24 million in 1969 to \$34 million in 1971. It was also necessary to withhold payments on a wide variety of obligations.

The 1972 Budget

5. Cash budget outlays in 1972 including unpaid 1971 obligations currently are projected by the government of Jordan at about \$260 million, some \$5 million less than projected in March of this year and \$3 million less than in 1971. While projections of defense and civil service expenditures -- the two largest categories -- have increased somewhat since the March projections, these increases have been offset by a reduction of emergency expenditures and the canceling of some 1971 obligations. In the first half of 1972, the government was able to hold spending to the planned level of \$119.2 million (see Table 2). While the amounts spent by some departments may differ from planned amounts, the government

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Table 1

Jordan: Foreign Budget Aid

	Million US \$					
	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972<sup>a</sup></u>
United States	17.2	5.5	--	--	47.5	50.0
United Kingdom	2.7	--	--	--	--	--
Khartoum	26.5	105.9	105.1	92.6	41.5	45.2
Other	60.1	--	--	--	13.2	2.4
<b>Total</b>	<b>106.5</b>	<b>111.4</b>	<b>105.1</b>	<b>92.6</b>	<b>102.2</b>	<b>97.6</b>

a. Presently committed.

apparently has effectively balanced increases in one category against decreases in others.

6. In the second half of 1972, Jordan's budgeted expenditures are to reach about \$141 million, some 18% more than was spent in the first half of 1972. Much of this increase is for payments on military equipment which generally come due in November and December. In addition, Jordan tries to schedule as many payments as possible for the second half of the fiscal year, as most of the budget support aid is received during this time. While planned expenditures in the second half are high, it is unlikely that the budgeted expenditures will be exceeded by much. Although the military has recently undergone a major reorganization which will increase manpower levels, Jordanian army officials have stated that the additional costs will be minimal, if any, as they will be compensated by large-scale reductions in the manpower costs of the national guard. In addition, because the change has occurred so late in Jordan's fiscal year, it will have little impact on 1972 budget expenditures in regards to equipment or other costs. Increases in the budgets of other departments may occur, but probably would be small or offset by savings in other areas.

7. In addition to reducing expenditures as compared with 1971, the government also projects an increase in 1972 domestic revenues of 11% to \$112 million. In the first half of 1972, however, domestic revenues of \$40 million were only 9.3% above revenues for the same period in 1971. Thus revenues for the second half of the year must be increased by 12%, to some \$72 million, to meet 1972 projections. Domestic revenue in the

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Table 2

Jordan: 1972 Cash Budget<sup>a</sup>

	Million US \$		
	<u>Jan-Jun</u>	<u>Jul-Dec</u>	<u>Total</u>
<b>Total revenue</b>	<b>83.5</b>	<b>140.2</b>	<b>223.7</b>
Domestic revenue	39.9	72.1	112.0
General	39.9	53.7	93.6
Tapline	--	7.2	7.2
Profits of Central Bank	--	11.2	11.2
Budget support	35.1	62.5	97.6
Saudi Arabia	22.7	22.5	45.2
US	10.0	40.0	50.0
Special drawing rights	2.4	--	2.4
Other	--	--	--
Domestic borrowing	8.4	5.6	14.0
<b>Expenditures</b>	<b>119.2</b>	<b>140.8</b>	<b>260.0</b>
Current	88.9	107.0	195.9
Civil service	31.2	41.6	72.8
Public security	6.7	6.5	13.2
Defense	51.0	58.9	109.9
Development	7.2	20.1	27.3
Other (primarily debt repayment)	16.1	12.0	28.1
1971 obligations <sup>b</sup>	7.0	1.7	8.7

a. Because of rounding, components may not add to the totals shown.

b. 1971 obligations carried in 1972 originally totaled about \$35 million of which \$15 million was removed from the 1972 budget in February 1972 when Jordan received \$15 million in aid from the United States. Approximately \$11 million in 1971 obligations were canceled.

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second half of the year normally is much higher than in the first half because of the timing of some tax receipts and profits of the Central Bank and companies in which the government owns an interest. The government has stated that despite the small shortfall in the first half, the \$72 million goal will be met, and the government has increased the gasoline tax to bring in more money. While the projected increase in revenue may be too ambitious, any shortfall probably would be small.

8. Despite increased domestic revenues and lower expenditures, a 1972 budget deficit of \$148 million remains. So far, Jordan has received pledges of \$98 million in foreign aid to reduce the deficit, including \$50 million from the United States and \$45 million from Saudi Arabia. The government also plans to borrow \$14 million domestically leaving an unfinanced deficit of \$36 million.

9. There is little doubt that Jordanian officials take the budget deficit very seriously. King Hussein, Crown Prince Hassan, and Dr. Khalil Salim, Governor of the Central Bank and *de facto* administrator of government finances, all realize that the economy and political health of Jordan hinge on the best utilization of Jordan's meagre resources and foreign budget support. Moreover, the solution of budget problems for the first time means more than just keeping the economy afloat another year; the solution will influence the initiation of the three-year development plan which has become a high priority objective of the government.

10. Jordan can reasonably expect to receive budgetary assistance from Persian Gulf countries, other than Saudi Arabia, although commitments of such have not yet been forthcoming. In 1971, Persian Gulf aid totaled \$8.3 million (\$6.3 million from Abu Dhabi and \$2 million from Oman); most of the aid was received in the last quarter. Jordan has this year given increased technical and military aid to these Persian Gulf countries. Moreover, Abu Dhabi has a greatly increased income this year from petroleum production and could easily afford even greater economic assistance to Jordan than was provided last year.

11. The government could cover some of the remaining deficit by carrying into 1973 some 1972 obligations -- perhaps \$20 million or so. Even if there were no financial restraints, some \$5 million to \$10 million in obligations primarily from the development budget normally would be carried over into the following year, and the government should be able to delay some other purchases or payments until January. But the amount of budget obligations that can safely be carried over into next year probably cannot be as large as in the past, because the government is trying to build business confidence. In the past, unpaid bills have immediately signaled to the Jordanian business community that the government was in trouble.



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12. A substantial reduction in present planned expenditures would be difficult and probably would result in both economic and political problems. Total planned expenditures already are \$3 million below last year's, and little room exists for further reductions. Amman believes that the 1972 defense budget cannot be reduced, as many equipment purchases already have been put off for several years and the current Middle East political situation following the Munich massacre and hints of peace with Israel does not allow for a reduction in manpower. A cut in the budget of the Civil Service also would be difficult, as budget increases have been held down for several years and most economies have already been undertaken. While some departments have some excess employees which they could release without markedly affecting their operations, the amount of savings would be small, as these are the lower paid employees. This action, moreover, would create other problems, as alternative employment for these people is not available. The only other portion of the budget that can be cut is the development budget. While some savings will result from normal lags in project implementation, any reduction for budgetary reasons in the already painfully small amount spent on economic development would be a severe setback to the three-year development plan now being drawn up and would dampen economic activity which is just now returning to the pre-1970 levels.

13. Jordan can increase domestic borrowing, but almost solely through Central Bank advances and short-term loans,<sup>(2)</sup> which inflate the already excessive money supply. Massive budget deficits since the 1967 war have caused an 85% increase in money supply. The supply of goods nearly stagnated, however, so that the velocity of circulation of money fell greatly. This increased willingness to hoard money was due primarily to political uncertainty -- it was considered safer to hold money than goods. In turn, the lack of business confidence kept the economy depressed. Now that there are signs of renewed business confidence, money hoards will probably be put to use (the velocity of money will increase). While this will increase economic activity, it will also push up imports and cause a further reduction in foreign exchange reserves. Since early this year, there have been many signs of a strong economic revival -- in particular increased consumer spending for durable goods, and increased investment by local businessmen. These trends are not yet reflected in available import statistics, but they could lead to a sharp rise in imports this year. The Central Bank believes that any increase in the money supply will only exacerbate the situation. However, foreign exchange reserves -- now \$230 million -- still are sufficient to cover about 12 months of imports, and the Central Bank will begrudgingly give the government the amount it needs.<sup>(3)</sup>

2. Only about 2% of government bonds issued this year are held outside the banks.

3. Until 1971, Jordan had a stated policy of maintaining a 100% foreign exchange reserve for its money supply. The necessity to abandon this policy beginning in early 1971 occasioned serious concern as to its effects on confidence in the Jordanian dinar, which, in the event, proved unjustified. Foreign exchange revenues now cover over 90% of the money supply.

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1973 Budget

14. While Jordan probably can scrape by in 1972 even if additional aid is not received, this will mean postponing substantial payments until 1973, when, for the first time since the 1967 war, a marked increase in economic development expenditures is expected. The resulting budget strains could force a delay in implementing the new three-year development plan. The new three-year plan appears to be the first really serious effort to direct the country's economic development, including investment by the local sector. In addition, local businessmen and several large firms have shown interest recently in investing in Jordan, and any major budgetary problems which adversely affect the economy will most certainly affect their decisions to invest in Jordan. Prudent budgetary policies are necessary to build business confidence because they are the principal guarantee of the future convertibility of the dinar.

15. Although the 1973 budget has not been formulated, the budget undoubtedly will be larger than in 1972. The largest increase most likely will be in the development budget, as the new three-year development program is initiated. While Jordan is expecting large amounts of foreign project aid, these projects also have large local currency costs which usually would be borne by Jordan. The government is placing considerable emphasis on economic development, hoping that through this program the reliance on budget support can be reduced and also that employment can be found for a large number of refugees. Military expenditures probably also will be increased, after remaining essentially stable for three years. The army has forgone some equipment purchases, such as trucks, for the past several years, and these purchases cannot be put off much longer without lowering the effectiveness of the army. In addition, the current Middle East political situation does not give Jordan much opportunity for reducing other defense costs. The 1973 budget also will be burdened by the carryover of 1972 unpaid obligations.

16. Domestic revenues probably will increase substantially in 1973, but probably not sufficiently to meet added expenditures. Since 1967, domestic receipts have increased at an average annual rate of more than 9%, despite fighting with the fedayeen, border closures, and other Middle East crises. The economy is expanding rapidly now and is expected to continue this expansion during 1973, thus the 11% increase in domestic revenues projected in 1972 probably could be achieved also in 1973. Domestic revenues, however, normally make up about 40% of government income, and other receipts (primarily grant aid) are not likely to increase. Thus total government receipts probably will not increase as fast in absolute terms as expenditures, especially as the new development program gets into full swing.

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### Conclusions

17. Jordan probably will finish 1972 with a deficit near to the projected \$36 million. Some additional aid can reasonably be expected from Persian Gulf countries. There is little fat left in the 1972 expenditure budget that can be pared off without adverse effects on the economy, which is just beginning to move again after the devastation of the 1970 war. Nevertheless, the likely deficit can be financed, although with some difficulty, by a combination of domestic borrowing and a carryover of 1972 obligations into 1973.

18. The impact of Jordan's 1972 budget problems will be felt largely in 1973, when payment of unpaid obligations held over from 1972 could cut into budgeted funds for economic development and the military. Economic development has been given a high priority by Jordan's leaders, and a three-year development plan is to begin in 1973. Successful implementation of the plan will require both a larger increase in government investment and a continued revival of business confidence. Large security needs, however, will continue to compete with those of economic development.

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